

## Message Text

UNCLASSIFIED

PAGE 01 LONDON 09226 01 OF 02 221618Z

46

ACTION TRSE-00

INFO OCT-01 EUR-25 ISO-00 SSO-00 USIA-15 AID-20 CIAE-00

COME-00 EB-11 FRB-03 INR-11 NSAE-00 RSC-01 XMB-07

OPIC-12 SP-03 CIEP-02 LAB-06 SIL-01 OMB-01 AGR-20

NSC-07 SS-20 STR-08 CEA-02 L-03 H-03 PRS-01 PA-04

INT-08 SAM-01 SAJ-01 NEA-14 DRC-01 FEAE-00 /212 W

----- 078786

O R 221709Z JUL 74

FM AMEMBASSY LONDON

TO AMCONSUL HAMBURG IMMEDIATE

INFO SECSTATE WASHDC 2342

AMEMBASSY ROME

UNCLAS SECTION 01 OF 02 LONDON 09226

DEPARTMENT PASS TREASURY

E.O. 11652: N/A

TAGS: OVIP (SIMON), UK

SUBJECT: SECRETARY OF TREASURY SIMON TRAVEL; MESSAGE

FROM CHANCELLOR OF THE EXCHEQUER HEALEY TO

SECRETARY SIMON

1. CHANCELLOR HEALEY HAS REQUESTED THAT WE FORWARD TO SECRETARY SIMON THE FOLLOWING MESSAGE FROM THE CHANCELLOR SUMMARIZING THE CHANCELLOR'S MINI BUDGET STATEMENT MADE THIS AFTERNOON.

2. QUOTE. I AM LOOKING FORWARD VERY MUCH TO SEEING YOU HERE ON WEDNESDAY. THERE WILL BE MUCH TO TALK ABOUT. IN THE MEANTIME YOU MIGHT LIKE TO HAVE A SUMMARY OF THE ECONOMIC MEASURES I AM ANNOUNCING IN PARLIAMENT THIS AFTERNOON.

3. THEIR MAIN OBJECTIVE IS TO CONTINUE THE ATTACK ON IN-  
UNCLASSIFIED

UNCLASSIFIED

PAGE 02 LONDON 09226 01 OF 02 221618Z

FLATION BY ACTING DIRECTLY ON PRICES AND MODERATING THE

RISE IN INDUSTRIAL COSTS. THE SECOND OBJECTIVE IS TO ENSURE THAT THIS ACTION DOES NOT UPSET THE CONTINUING IMPROVEMENT IN THE "NON-OIL" BALANCE OF PAYMENTS. IN THIS CONNECTION THERE SHOULD BE NO DIFFICULTY IN FINANCING THE DEFICIT IN THE MONTHS AHEAD. WE HAVE NOT HAD TO DRAW ON THE \$2,500 MILLION LOAN NEGOTIATED IN MARCH WITH THE CLEARING BANKS; AND WE HAVE NOW REACHED AGREEMENT WITH THE IMPERIAL IRANIAN GOVERNMENT FOR A LINE OF CREDIT OF \$1200 MILLION TO BE DRAWN IN THE FORM OF THREE LOANS BY PUBLIC SECTOR BODIES WITHIN THREE YEARS.

4. THREE MEASURES WILL HELP DIRECTLY WITH PRICES:

(I) A REDUCTION IN THE VAT RATE FROM 10 PERCENT TO 8 PERCENT.

(II) A MEASURE OF RELIEF IN THE BURDEN OF INCREASES IN LOCAL AUTHORITY RATES (I.E. PROPERTY TAXES), COSTING ABOUT 150 MILLION POUNDS; AND AN INCREASE IN THE "NEEDS ALLOWANCE" USED FOR CALCULATING RENT AND RATE REBATES AND RENT ALLOWANCES, COSTING 60 MILLION POUNDS IN A FULL YEAR AND ONLY 15 MILLION POUNDS IN 1974/75.

(III) ADDITIONAL FOOD SUBSIDIES COSTING 50 MILLION POUNDS WITHIN THE TOTAL ANNOUNCED IN MARCH.

5. THESE WILL TOGETHER HAVE A DIRECT IMPACT ON THE RETAIL PRICE INDEX OF ABOUT 1-1/2 PERCENT WITHIN THE NEXT THREE MONTHS, AND ABOUT 2-1/2 PERCENT EVENTUALLY. BECAUSE OF WIDESPREAD "THRESHOLD" ARRANGEMENTS LINKING PAY TO CHANGES IN PRICES, PAY INCREASES WILL BE LESS AS A RESULT OF THESE MEASURES, AND THE NET EFFECT ON DEMAND OF THE ADDITIONAL EXPENDITURE WILL BE CORRESPONDINGLY LESS-- ESTIMATED AT NO MORE THAN THREE-QUARTERS OF WHAT WOULD NORMALLY BE EXPECTED BY THE END OF THIS YEAR. THE MEASURES WILL HELP TO REINFORCE THE WILLINGNESS OF TRADE UNIONS TO FOLLOW THE ADVICE OF THE TRADES UNION CONGRESS -- THAT WAGE SETTLEMENTS SHOULD SEEK ONLY TO COVER

UNCLASSIFIED

NNN

UNCLASSIFIED

PAGE 01 LONDON 09226 02 OF 02 221617Z

46

ACTION TRSE-00

INFO OCT-01 EUR-25 ISO-00 SSO-00 AID-20 CIAE-00 COME-00

EB-11 FRB-03 INR-11 NSAE-00 RSC-01 XMB-07 OPIC-12

SP-03 CIEP-02 LAB-06 SIL-01 OMB-01 NSC-07 SS-20

STR-08 CEA-02 AGR-20 L-03 H-03 PRS-01 PA-04 USIA-15

INT-08 FEAE-00 SAM-01 SAJ-01 NEA-14 DRC-01 /212 W

----- 078743

O R 221709Z JUL 74

FM AMEMBASSY LONDON

TO AMCONSUL HAMBURG IMMEDIATE

INFO SECSTATE WASHDC 2343

AMEMBASSY ROME

UNCLAS SECTION 02 OF 02 LONDON 09226

PASS TREASURY

INCREASES IN PRICES.

6. IN ADDITION THERE ARE TWO MEASURES TO HELP INDUSTRY:

(I) THE REGIONAL EMPLOYMENT PREMIUM, WHICH HAS REMAINED UNCHANGED SINCE IT WAS INTRODUCED IN OCTOBER 1967, WILL BE DOUBLED FROM 5 AUGUST. THIS WILL PROMOTE A MORE EFFECTIVE USE OF RESOURCES IN THE REGIONS AND THUS ITS RESOURCE COST WILL BE MUCH LESS THAN ITS MONEY COST.

(II) THE STATUTORY LIMIT ON INCREASES IN DIVIDEND DISTRIBUTION WILL BE RAISED TO 12-1/2 PERCENT. THIS WILL HELP INDUSTRY TO RAISE FUNDS TO FINANCE NEW INVESTMENT.

7. ALL THESE MEASURES WILL TOGETHER ADD ONLY A RELATIVELY SMALL AMOUNT -- SOME 340 MILLION POUNDS -- TO THE PUBLIC SECTOR BORROWING REQUIREMENT THIS YEAR. MUCH OF THIS WILL UNCLASSIFIED

UNCLASSIFIED

PAGE 02 LONDON 09226 02 OF 02 221617Z

ACCRUE TO THE CORPORATE SECTOR AND THUS IMPROVE THE OVERALL FINANCIAL POSITION OF COMPANIES IN THE CURRENT YEAR. THE EFFECT ON THE TRADE BALANCE IN THE CURRENT YEAR WILL BE SMALL, AND A VERY BIG IMPROVEMENT IN THE TRADE BALANCE IS EXPECTED NEXT YEAR.

8. THUS THE MEASURES WILL HAVE AN IMMEDIATE AND BENEFICIAL EFFECT IN SLOWING THE RATE OF PRICE INCREASE, AND THEREFORE LESSENING THE PAY INCREASES NEEDED TO MAINTAIN REAL EARNINGS. THEY WILL ALSO HELP INDUSTRY AND EMPLOYMENT BY TAKING UP SOME SLACK, ESPECIALLY IN

THE REGIONS. AND THEY WILL DO SO WITHOUT PUTTING ANY  
STRAIN ON THE ECONOMY AS A WHOLE, AND WITHOUT UPSETTING  
PROGRESS ON THE BALANCE OF PAYMENTS FRONT. END QUOTE.

9. AMCONGEN HAMBURG PLEASE PASS ABOVE TO TREASURY  
SECRETARY SIMON AND UNDER SECRETARY BENNETT.

SOHM

UNCLASSIFIED

NNN

## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** n/a  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 22 JUL 1974  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** n/a  
**Disposition Approved on Date:**  
**Disposition Authority:** n/a  
**Disposition Case Number:** n/a  
**Disposition Comment:**  
**Disposition Date:** 01 JAN 1960  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1974LONDON09226  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
**Film Number:** D740197-0469  
**From:** LONDON  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1974/newtext/t19740729/aaaaayqw.tel  
**Line Count:** 177  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Office:** ACTION TRSE  
**Original Classification:** UNCLASSIFIED  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 4  
**Previous Channel Indicators:** n/a  
**Previous Classification:** n/a  
**Previous Handling Restrictions:** n/a  
**Reference:** n/a  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** martinjw  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 17 SEP 2002  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <17 SEP 2002 by ThomasVJ>; APPROVED <17 JAN 2003 by martinjw>  
**Review Markings:**

Declassified/Released  
US Department of State  
EO Systematic Review  
30 JUN 2005

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** SECRETARY OF TREASURY SIMON TRAVEL; MESSAGE FROM CHANCELLOR OF THE EXCHEQUER HEALEY TO  
**TAGS:** OVIP, UK, (SIMON, WILLIAM E)  
**To:** TRSY HAMBURG  
**Type:** TE  
**Markings:** Declassified/Released US Department of State EO Systematic Review 30 JUN 2005